Saskatchewan Transportation Company
First Quarter Report 2016-17

For the period ending June 30, 2016

Corporate Mandate

The Saskatchewan Transportation Company is a provincial coach company which provides **safe**, **affordable**, and **accessible** bus passenger and freight services to Saskatchewan.

2016-17 Corporate Profile

Mission

To provide value to Saskatchewan residents with convenient, affordable, safe, clean, comfortable, courteous, environmentally friendly, and reliable passenger and freight transportation services.

Vision

To be the best passenger and freight transportation company in Canada.

Values

All business activities are conducted in a manner that is:

- Honest
- Dependable
- Innovative
- Respectful
- Socially and Environmentally Responsible

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Management Discussion and Analysis

Introduction

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC) operations for the quarter ended June 30, 2016. The MD&A is as of August 29, 2016 and should be read in conjunction with STC's June 30, 2016 condensed financial statements. The June 30, 2016 condensed financial statements are unaudited and have been prepared in accordance with International Accounting Standards (IAS) 34.

The discussion contains certain forward-looking statements that reflect Management's best estimates and assumptions on information available at the time. As these statements are impacted by certain risks and uncertainties described in the Risk Assessment section of STC's 2015-16 Annual Report actual results and events may vary from those included in, contemplated by, or implied by such statements.

Results of Operations

STC provides intercity bus service to a geographically-dispersed Saskatchewan market, and the footprint of its network is a key driver of costs. Diversifying revenue beyond passenger services, particularly through parcel express services, helps STC offset the passenger service losses. Other revenue streams, such as foreign coach and leasing company facilities, further contribute to STC's profitability.

To fulfill its public policy role, STC requires an operating and capital grant from its owner, Crown Investments Corporation (CIC). Ensuring the efficient use of these funds drives decisions throughout STC. As a result, the Company's financial performance is measured based on its operational efficiency. STC's operating cash loss as a percentage of expenditures was 44 per cent for the three months ended June 30, 2016. In this regard, STC compares favourably to public transit in the urban centres which sit between 64 and 72 per cent on an annual basis, meaning STC's self-generated revenues cover a larger percentage of its operating expenses.

For the three months ended June 30, 2016 the Company's loss before grants (including depreciation) was $3,361 thousand, a $144 thousand increase when compared to the $3,217 thousand loss reported for the three months ended June 30, 2015. Overall, STC's revenues declined $552 thousand from $3,882 thousand for the three months ended June 30, 2015 to $3,330 thousand for the three months ended June 30, 2016 due to reduced passenger and express revenues. Expenses for the first quarter of 2016-17 were $6,691 thousand, which compared favourably to $7,099 thousand for the same period in 2015-16. Operating expenses were positively impacted by lower depreciation expense and low fuel prices.

For the fiscal year ending March 31, 2017, an operating grant of $12,400 thousand and a capital grant of $1,800 thousand from CIC were approved. At June 30, 2016, STC had received $2,500 thousand of the operating grant funds available and none of the capital grant funds available.

Passenger Services

In the three months ended June 30, 2016, STC coaches travelled approximately 709 thousand miles (2015-16 - 705 thousand miles), providing intercity bus passenger service to 253 Saskatchewan communities.

	Three months ended June 30		
	2016	2015	Variance
	(in thousands)		
Passenger service revenue	$ 1,404	$ 1,684	$ (280)
Passenger service operating expense	3,561	3,682	(121)
Passenger service loss	$ (2,157)	$ (1,998)	$ (159)

Total ridership for the three months ended June 30, 2016 was 39,960 compared to 47,781 for the three months ended June 30, 2015, a decrease of approximately 16.4 per cent. As a result, revenues from passenger operations during the first quarter of 2016-17 were $1,404 thousand, down from $1,684 thousand reported in the corresponding 2015-16 period. The lower ridership and subsequent revenues were impacted by the sustained low cost of consumer fuel that increased the perceived cost of bus fares. Route reductions implemented by Greyhound Canada and STC over the last few years also continued to impact ridership.

Expenses associated with operating passenger services were $3,561 thousand for the three months ended June 30, 2016, down $121 thousand when compared to the $3,682 thousand reported for the three months ended June 30, 2015. Expenses were down largely due to a decrease in fuel prices, but there were also reduced costs related to the decline in revenue such as commissions paid to STC's agents.

Express Services

Through its network of 174 agents and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

	Three months ended June 30		
	2016	2015	Variance
	(in thousands)		
Parcel express revenue	$ 1,753	$ 1,955	$ (202)
Parcel express operating expense	1,368	1,444	(76)
Parcel express profit	$ 385	$ 511	$ (126)

For the three months ended June 30, 2016, revenues from express operations were $1,753 thousand, down from $1,955 thousand reported for the three months ended June 30, 2015. The lower express revenues are due in part to a slowdown in the economy and increased competition within the industry which led to lower volumes.

Expenses associated with operating express services in the three months ended June 30, 2016 were $1,368 thousand. This was a decrease of $76 thousand from $1,444 thousand reported for the three months ended June 30, 2015 as reduced shipping volumes impacted variable costs.

Maintenance Services

STC operates two maintenance facilities, one in Saskatoon for major bus maintenance, and one in Regina for more routine servicing.

For the three months ended June 30, 2016, maintenance service expenditures associated with maintaining the Company's fleet (included in passenger and express services above) were $183 thousand, compared to $228 thousand for the three months ended June 30, 2015. The variance was primarily due to the timing of unpredictable, non-routine maintenance.

The Company also uses its facilities to provide maintenance and cleaning services for other transportation companies. The revenues derived from this service during the first quarter of 2016-17 were $50 thousand compared to $64 thousand for the same period in 2015-16. The $14 thousand decrease in revenue was due to lower fuel volumes and fuel prices being charged to maintenance customers. There was a corresponding $7 thousand decrease in the associated expenses, from $34 thousand for the three months ended June 30, 2015 to $27 thousand for the three months ended June 30, 2016.

	Three months ended June 30		
	2016	2015	Variance
	(in thousands)		
Foreign coach maintenance revenue	$ 50	$ 64	$ (14)
Foreign coach maintenance expenses	27	34	(7)
Foreign coach maintenance profit	$ 23	$ 30	$ (7)

Other Revenue

STC generates other revenue through alternative sources to help offset grant requirements. For the first quarter of 2016-17, other revenue totaled $173 thousand ($214 thousand for the same period in 2015-16) which includes the foreign coach maintenance revenue of $50 thousand discussed above. The remaining variance was due to slight decreases in several ancillary revenue streams, an outcome of the decline in ridership and express volumes.

Expenses

As part of the revenue discussion above, expenses were classified by function to assist with analysis of STC's different lines of business. The discussion below corresponds with the condensed statement of comprehensive (loss) income presentation.

Looking at STC's expenses as a whole, salaries, wages and short-term employee benefits of $3,891 thousand were comparable with the same period in 2015-16 of $3,881 thousand. Operating costs of $2,094 thousand for the three months ended June 30, 2016 were $111 thousand below the three months ended June 30, 2015 primarily due to lower fuel costs as well as reduced variable costs associated with lower ridership and express volumes, such as pickup and delivery costs and commissions paid to STC's agents. The Company's depreciation expense was $307 thousand lower for the first quarter of 2016-17 when compared to the same period in 2015-16 reflecting an impairment that was recorded in the prior year as well timing differences related to the replacement of fleet.

Outlook

Throughout the remainder of 2016-17 and beyond, STC will maintain its focus of providing safe, affordable, and accessible bus passenger and freight services to Saskatchewan. STC will invest in fleet, technology, people, and facilities to support strategic goals of increasing revenues while maintaining high customer satisfaction ratings for both passengers and shippers.

2016-17 is an exciting time for STC as the company moves towards smaller, more cost efficient vehicles. The investment in smaller passenger vehicles provides service to low-use routes while realizing cost savings with lower initial capital investment and lower ongoing operating costs. Within the year, STC plans to place three new 16-passenger vehicles and one new 22-passenger vehicle into service. STC will also be ordering an additional two new 16-passenger vehicles and four new 22-passenger vehicles during the second quarter of 2016-17. These purchases, along with the small and mid-sized vehicles already in the fleet, will allow STC to assign, at least part of the time, smaller vehicles to approximately half the routes in the network.

Throughout the remainder of 2016-17, STC will be implementing a new point-of-sale (POS) system that will allow for on-line ticket purchases to make it easier for customers to book their trips. Beyond meeting customer expectations, an upgraded POS system is the foundation for internal efficiencies. Most notably, the new POS system will have capacity management, a component necessary to support STC's utilization of smaller vehicles.

The public transportation industry will continue to require government subsidies to ensure service levels are available beyond limited high traffic corridors. STC's funding is required to ensure strategic investment occurs in new opportunities and tools. This will position STC to further increase the efficiency of the service delivery model for both bus passenger and freight services.

Saskatchewan Transportation Company
Condensed Statement of Financial Position
As at

	June 30, 2016 (unaudited)	March 31, 2016 (audited)
	(in thousands)	
Assets		
Current		
Cash	$ 1,236	$ 2,051
Accounts receivable	768	806
Inventories	392	351
Prepaid expenses	747	468
Assets held for sale	4	4
	3,147	3,680
Non-current		
Property and equipment (note 6)	35,391	35,946
	$ 38,538	**$ 39,626**
Liabilities and Province's Equity		
Liabilities		
Current		
Trade and other payables	$ 2,321	$ 2,549
Non-current		
Deferred capital grant	29,585	30,233
	31,906	32,782
Province of Saskatchewan's Equity		
Contributed surplus	465	465
Retained earnings	6,167	6,379
	6,632	6,844
	$ 38,538	**$ 39,626**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Comprehensive (Loss) Income
(unaudited)

	Three months ended June 30	
	2016	**2015**
	(in thousands)	
Revenue		
Express services	$ 1,753	$ 1,955
Passenger services	1,404	1,684
Other	173	214
Gain on disposal of property and equipment	-	29
	3,330	3,882
Expenses		
Operating costs other than those listed below	2,094	2,205
Salaries, wages and short-term employee benefits	3,891	3,881
Depreciation	706	1,013
	6,691	7,099
Loss before the following	(3,361)	(3,217)
Operating grant	2,500	3,800
Capital grant	649	966
Total comprehensive (loss) income	**$ (212)**	**$ 1,549**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Changes in Equity
(unaudited)

	Attributable to the Province of Saskatchewan		
	Retained Earnings	**Contributed Surplus**	**Total Equity**
		(in thousands)	
Balance at April 1, 2015	$ 5,186	$ 465	$ 5,651
Total comprehensive Income	1,549	-	1,549
Balance at June 30, 2015	6,735	465	7,200
Total comprehensive loss	(356)	-	(356)
Balance at March 31, 2016	6,379	465	6,844
Total comprehensive loss	**(212)**	-	**(212)**
Balance at June 30, 2016	**$ 6,167**	**$ 465**	**$ 6,632**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Cash Flows
(unaudited)

	Three months ended June 30	
	2016	**2015**
	(in thousands)	
Operating Activities		
Total comprehensive (loss) income	$ (212)	$ 1,549
Items not involving cash:		
Depreciation	706	1,013
Gain on disposal of property and equipment	-	(29)
Recognition of capital grant	(649)	(966)
Net change in non-cash working capital	(510)	(1,224)
Cash (used in) provided by operating activities	(665)	343
Investing Activities		
Additions to property and equipment (note 6)	(150)	(811)
Proceeds on disposal of property and equipment (note 6)	-	40
Cash used in investing activities	(150)	(771)
Financing Activities		
Capital grant received	-	900
Cash provided by financing activities	-	900
(Decrease) increase in cash	(815)	472
Cash, beginning of the period	2,051	1,392
Cash, end of the period	**$ 1,236**	**$ 1,864**

See accompanying notes

1. Status of the Company

The Saskatchewan Transportation Company (STC or the Company) was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. STC's powers, duties and conditions were affirmed in 1993 by Order in Council #5. STC is continued under *The Crown Corporations Act, 1993*. STC is a corporation domiciled in Canada. The address of the Company's registered office and principal place of business is 1717 Saskatchewan Drive, Regina, SK S4P 2E2.

The financial results of STC are included in the condensed consolidated financial statements of Crown Investments Corporation of Saskatchewan (CIC).

STC is a Provincial Crown corporation and therefore not subject to Federal or Provincial income taxes in Canada.

STC's passenger rates are subject to rate regulation by the Motor Carrier Committee of the Saskatchewan Highway Traffic Board, which is a related party. The Motor Carrier Committee reviews applications for operating authority certificates under the *Traffic Safety Act*, and fixes rates and conditions of carriage for holders of these certificates or licenses of authority. STC holds operating authority on the routes it operates, but must seek approval for passenger rate changes from the Motor Carrier Committee.

2. Operations and financing

As a matter of public policy, STC will continue to provide bus passenger and express service to the communities of Saskatchewan. The Company will ensure that its commitment to servicing the province of Saskatchewan is kept uppermost in all of its planning. As a result of the public policy rationale for the operation of certain non-commercial routes, STC continues to be dependent upon CIC for its funding.

By way of Order in Council #282/2016, STC was authorized to obtain grant funding up to $14,200 thousand for the fiscal year's operating and capital requirements (March 31, 2016 - $13,700 thousand, Orders in Council #83/2015 and #605/2015). To date, STC requested and received $2,500 thousand of the $14,200 thousand authorized.

3. Basis of preparation

a. Statement of compliance

These condensed financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting*. These condensed financial statements do not include all the information required for full annual financial statements and should be read in conjunction with STC's audited annual financial statements for the 15-month period ended March 31, 2016.

The condensed financial statements were authorized for issue by STC's Board of Directors on August 29, 2016.

b. Basis of measurement

These condensed financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

These condensed financial statements are presented in Canadian dollars, which is the Company's functional currency.

d. Use of estimates and judgments

The preparation of condensed financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Depreciation is based on the estimated useful lives of property and equipment. Tangible assets are reviewed for impairment annually using estimates of recoverable amounts to determine if there is an impairment loss. The accrual for compensated absences is based on a three-year rolling average of historical usage.

4. Significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those disclosed in STC's audited financial statements for the 15-month period ended March 31, 2016.

a. Changes in accounting policies during the period

Effective January 1, 2016, the Company adopted the following amended IFRSs:

- IFRS 7, *Financial Instruments: Disclosures* – Annual Improvements to IFRSs 2012-2014 Cycle
- IAS 1, *Presentation of Financial Statements* – amendments to Disclosure Initiative
- IAS 16, *Property, Plant and Equipment* – amendments to Clarification of Acceptable Methods of Depreciation and Amortization
- IAS 38, *Intangible Assets* – amendments to Clarification of Acceptable Methods of Depreciation and Amortization

These standard changes had no effect on the condensed financial statements of STC.

b. New standards and interpretations not yet adopted

The following new standards, and amendments to standards and interpretations, are not yet effective for the period and have not been applied in preparing these condensed financial statements:

- IFRS 9, *Financial Instruments* – effective January 1, 2018
- IFRS 15, *Revenue from Contracts with Customers* – effective January 1, 2018
- IAS 7, *Statement of Cash Flows* – amendments to Disclosure Initiative – effective January 1, 2017

The extent of the impact on adoption of these standards on the condensed financial statements of STC is not known at this time.

5. Financial instruments

The following summarizes the classification, carrying amounts and fair values of the Company's financial instruments:

			June 30, 2016		March 31, 2016	
	Classification	Level	Carrying amount	Fair value	Carrying amount	Fair value
			(in thousands)			
Cash	FV	1	$ 1,236	$ 1,236	$ 2,051	$ 2,051
Accounts receivable	L&R	N/A	768	768	806	806
Trade and other payables	OL	N/A	2,321	2,321	2,549	2,549

Classification details are:
FV – fair value through profit or loss
L&R – loans and receivables
OL – other financial liabilities

Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of inputs used in the valuation.

Level 1 – Quoted prices are readily available from an active market.
Level 2 – Inputs, other than quoted prices included in level 1, that are observable either directly or indirectly.
Level 3 – Inputs are not based on observable market data.

The fair value hierarchy is not applicable where the carrying amount approximates fair value due to the short-term nature of the financial instrument.

6. Property and equipment

During the period, the Company acquired assets totaling $150 thousand. Of this, $100 thousand was related to buildings, $45 thousand to vehicles, and $5 thousand to equipment.

There were no asset disposals during the period.

7. Commitments

As at June 30, 2016, STC had made significant commitments in the amount of $653 thousand for the purchase of four coaches. The fleet additions are expected to be delivered during the third quarter of 2016-17.